

# TAXTALK

## RECENT TAX UPDATES & REMINDERS

### **Proposed Capital Gains Inclusion Rate Increase Has Been Deferred**

On January 31, 2025, the Department of Finance announced that the federal government is deferring the date (from June 25, 2024 to January 1, 2026) on which the capital gains inclusion rate would be increased from one-half to two-thirds on all capital gains realized annually above \$250,000 by individuals and on all capital gains realized by corporations and trusts.

As a result of the deferral of the proposed changes to the inclusion rate effective to be January 1, 2026, corporations that already filed their corporate tax returns and had incorporated a two-thirds inclusion rate for capital gains, the Canada Revenue Agency ("CRA") has indicated that it will coordinate corrective reassessments to reverse the application of the two-thirds inclusion rate. For the corporations that have not yet filed their T2 corporate tax returns to report on dispositions for the period from June 25 to December 31, 2025, they can continue to report one-half inclusion rate until further notice.

For individuals, CRA has indicated that it will grant relief of the late-filing penalties and arrears interest until June 2, 2025, to provide additional time for taxpayers reporting capital dispositions to meet their tax filing obligations. For T3 Trust filers, this relief date has been granted until May 1, 2025. With the proposed change to the effective date, CRA has indicated that in the coming weeks, for the 2024 tax year, it will issue forms that have been reverted back to the currently enacted rate.

Regarding the deferral of the proposed change in the inclusion rate to January 1, 2026, and with a federal election likely soon, there remains some uncertainty whether a federal bill will be introduced and passed to make this change an actual law.

### **Lifetime Capital Gains Exemption ("LCGE")**

Effective June 25, 2024, the LCGE was increased from \$1,016,836 to \$1,250,000. Indexation of the LCGE would resume in 2026.

The lifetime capital gains exemption is a tax provision that lets small-business owners and their family members avoid paying taxes on capital gains up to \$1,250,000 when they sell shares in their business, a farm property, or a fishing property.

### **Canadian Entrepreneurs' Incentive ("CEI")**

Effective January 1, 2025, the CEI, if eligible, will reduce the capital gains inclusion rate from two thirds to one-third on eligible capital gains up to a lifetime maximum of \$2 million. This incentive takes effect starting with a maximum in the 2025 tax year of \$400,000 and the maximum will increase by \$400,000 each year after until it reaches \$2 million in 2029.

### **Donation Deadline for the 2024 Tax Year**

On January 23, 2025, the Department of Finance announced that it had released draft legislation in support of the proposed change to extend the deadline to February 28, 2025 to make charitable donations.

Although, this is draft legislation, CRA confirmed that it will proceed with administering the 2024 deadline extension for charitable donations.

Therefore, for the 2024 tax year, individuals, certain estates and certain corporations may now claim donations made to eligible charities up to February 28, 2025.

The gift must be in the form of cash, or transferred by way of cheque, credit card, money order, or electronic payment. The gift cannot be made through a payroll deduction or by an individual's will if the individual died after 2024. Also, gifts of property or appreciated securities will not qualify for the extension.

## Canada Carbon Rebate

The department of finance has previously commented that the Canada Carbon Rebate for small businesses would be tax-free, however, no draft legislation has been issued for this measure yet and won't as long as parliament is being prorogued.

So, unless legislation is created to make the rebate tax-free for businesses, the Canada Carbon Rebate payments for small businesses are considered taxable. It is considered government assistance and taxable under the Income Tax Act.

## Taxation of Cryptocurrency

Cryptocurrency is viewed by CRA as property and any gains from the sale of the property are taxed as either business income or capital gains.

To determine whether or not your Cryptocurrency transactions are part of a business is essential since only 50% of capital gains are taxable while 100% of business income is taxable.

Disposing of Cryptocurrency, such as selling or trading for another Cryptocurrency or using it for purchases will trigger either business income or capital gains treatment in Canada.

Ordinary income (or business income) tax treatment is applicable when you earn income from Cryptocurrency transactions. The income is determined by the amount of the proceeds of your Cryptocurrency at the time you receive it.

Earning Cryptocurrency from activities such as staking and mining rewards fall under business income.

The CRA can track cryptocurrency transactions through cryptocurrency exchanges and all transactions should be disclosed for tax reporting purposes.

## Changes to the Home Buyers' Plan ("HBP") Withdrawal Limits

The HBP withdrawal limit has been increased from \$35,000 to \$60,000, effective April 16, 2024. This allows first-time home buyers to withdraw more from their RRSPs to purchase a home, while still benefiting from tax deferral. The repayment period remains unchanged, starting the second year after withdrawal, with a maximum of 15 years for full repayment.

## Business Mail is Going Online

Starting in the spring of 2025, the CRA will default to online mail for most business correspondence via My Business Account, eliminating paper mail. This applies to newly registered businesses, existing businesses using My Business Account, and those with representatives using Represent a Client.

Businesses should sign in or register for My Business Account and ensure their email address is up to date. This allows the CRA to send notifications about account changes and new mail. Clients can add up to three email addresses per program account, including authorized representatives.

If clients prefer paper mail, they must submit form RC681 or request it through My Business Account starting May 2025.

## We Can Help

Your MG advisor can help you review your personal or business tax situation and help you decide which steps you can take to help you with the taxes you will pay.

A memorandum of this nature cannot be all-encompassing and is not intended to replace professional advice. Its purpose is to highlight tax planning possibilities and identify areas of possible concern. Anyone wishing to discuss the contents or to make any comments or suggestions about this TaxTalk is invited to contact one of our offices.

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